

# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Hillsdale County Road Comm	County	HILLSDALE	Type	OTHER	MuniCode	300100
Opinion Date	June 23, 2008	Audit Submitted	June 27, 2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="7,576,624"/>
General Fund Expenditure:	<input type="text" value="7,613,310"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="1,668,019"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="367,403"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	David	Last Name	Fisher	Ten Digit License Number	1101010337				
CPA Street Address	675 Robinson Rd	City	Jackson	State	Mi	Zip Code	49203	Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	1919 Hudson Road	City	Hillsdale	Zip Code	49242		

# *Hillsdale County Road Commission*

**(a Component Unit of Hillsdale County)**

**Hillsdale, Michigan**

## **FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**HILLSDALE COUNTY ROAD COMMISSION**  
**(a Component Unit of Hillsdale County)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

June 23, 2008

Members of the Board of County  
Road Commissioners  
County of Hillsdale, Michigan  
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **HILLSDALE COUNTY ROAD COMMISSION**, a component unit of Hillsdale County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hillsdale County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Hillsdale County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2008, on our consideration of the Hillsdale County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Hillsdale County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Hillsdale County Road Commission, we offer readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of this component unit of Hillsdale County, Michigan, for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented herein, in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The County Road Commission received \$7,576,624 in revenues for our 2007 operations. Our expenditures for the year totaled \$7,613,310. This resulted in an operating deficit for the year of \$36,686. This deficit was fortunately much smaller than anticipated. It is important to note that the fund balance includes inventories of parts and road materials that are not available to us in cash. A more realistic look at our financial status is our year-end cash and investment balance of \$567,137 which equals 7.5% of revenues.
- In accordance with GASB 34 standards, we must annually calculate our infrastructure assets for roads, bridges and land improvements. The value of those infrastructure assets declined by \$359,512 for a year-end asset total of \$25,469,082.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis for understanding the Commission's financial statements. The Commission's basic financial statements comprise three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statement themselves.

### Government-wide Financial Statements

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall financial position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by federal and state shared revenues (operating grants) with contributions from the townships. The governmental activities of the Commission include providing construction, repair, maintenance and snow removal of county roads within Hillsdale County. The Commission also maintains state highways within Hillsdale County under contract with MDOT.

The government-wide financial statements include only the Commission itself (known as the primary government). The Commission has no legally separate component units for which the Commission is financially accountable. In this report, financial information for this Commission is reported separately from the financial information presented for Hillsdale County which reports the Commission as a component unit.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between general fund and government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund and revises the same as the year



progresses when needed. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Commission's financial statements. The notes are part of the basic financial statements and provide more information about the amounts in the accompanying financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

A presentation of the condensed Statement of Net Assets and Statement of Activities follows:

<b>Condensed Statement of Net Assets</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$ 2,202,238	\$ 2,218,166
Capital Assets	<u>28,605,955</u>	<u>28,402,094</u>
<b>Total Assets</b>	<b><u>30,808,193</u></b>	<b><u>30,620,260</u></b>
Long-term liabilities outstanding	(367,403)	(348,945)
Other liabilities	<u>(534,219)</u>	<u>(513,461)</u>
<b>Total liabilities</b>	<b><u>(901,622)</u></b>	<b><u>(862,406)</u></b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	28,605,955	28,402,094
Restricted	-	-
Unrestricted	<u>1,300,616</u>	<u>1,355,760</u>
<b>Total net assets</b>	<b><u>\$ 29,906,571</u></b>	<b><u>\$29,757,854</u></b>
<b>Condensed Statement of Activities</b>		
<b>Revenue</b>		
Charges for services	\$ 1,801,051	\$ 1,632,303
Operating grants & contributions -State	5,268,335	5,120,881
Capital grants & contributions - Federal	<u>459,483</u>	<u>115,147</u>
General Revenue:		
Interest income	<u>47,755</u>	<u>41,991</u>
<b>Total Revenue</b>	<b><u>\$ 7,576,624</u></b>	<b><u>\$ 6,910,322</u></b>
<b>Expenses</b>		
Public Works	<u>\$ (7,427,907)</u>	<u>\$ (6,560,348)</u>
<b>Total Expenses</b>	<b><u>\$ (7,427,907)</u></b>	<b><u>\$ (6,530,348)</u></b>

**Governmental activities.** Governmental activities increased the Commission's net assets by

\$148,717 during fiscal year 2007, primarily due to the effect of capital outlays exceeding depreciation expense by approximately \$338,530.

### **Capital Assets and Debt Administration**

#### **Hillsdale County Road Commission Capital Assets**

	<u><b>2007</b></u>	<u><b>2006</b></u>
Land-Not depreciated	\$ 68,434	\$ 68,434
Land and improvements –Not depreciated	<u>4,434,046</u>	<u>4,241,290</u>
Buildings	1,439,906	1,501,231
Road Equipment	1,371,406	1,448,859
Shop Equipment	51,749	44,133
Office Equipment	20,646	28,146
Engineering Equipment	8,139	9,215
Yard & Storage Equipment	173,988	189,263
Depletable Assets	2,605	3,243
Infrastructure (Roads & Bridges)	<u>21,035,036</u>	<u>20,868,280</u>
<b>Sub-Total</b>	<u><b>24,103,475</b></u>	<u><b>24,092,370</b></u>
<b>Total Capital Assets</b>	<u><b>\$ 28,605,955</b></u>	<u><b>\$ 28,402,094</b></u>

Additional information on the Commission's capital assets can be found in Note 3 of the accompanying financial statements.

<b>Long-term Debt</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Compensated absences	<u><b>\$ 367,403</b></u>	<u><b>\$ 348,945</b></u>

Additional information on the Commission's long term debt can be found in Note 4 of the accompanying financial statements.

### **Economic Factors and Road Fund Budgetary Highlights**

On the revenue side, our receipts from the Michigan Transportation Fund continue to decline from the highest year of 2004. We are operating with \$298,266 less per year or a loss of 6.3%. Township contributions were a healthy \$738,804 and we greatly appreciate their strong support for maintaining and improving the local road system. The road commission was successful in obtaining grant funds for special projects this year. \$1,049,107 was received from the federal and state critical bridge funds to replace two large bridges (Territorial Road and Moore Road). \$248,247 was received from the state's transportation economic development fund for an urban all-season road project on Barr and Mechanic Streets.

Looking at the expense side of the budget, it was a light year for road construction as we only had a small half-mile primary road project and only paved one and one-half miles of local roads. Overall \$2.1 million was spent on construction work in 2007. Most of our expenses usually occur in road and bridge maintenance and those costs were approximately \$4.6 million in 2007. Local road maintenance continues to be a big concern to us as 62% of our expenses were for local roads, but only 40% of our Michigan Transportation Fund revenues are earmarked for local roads. Overall, our expenses for local roads exceeded revenues by \$1,015,819 requiring a transfer from both our primary and county road funds to balance our deficit. Finally, our snow removal costs were the highest ever at \$1,073,034 for county roads.

### **Requests for Information**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Hillsdale County Road Commission, 1919 Hudson Road, Hillsdale, MI 49242.

## **BASIC FINANCIAL STATEMENTS**

# HILLSDALE COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 567,137	\$ -	\$ 567,137
Accounts receivable			
Michigan transportation funds	776,644	-	776,644
Due on county road agreements	53,038	-	53,038
Other	13,762	-	13,762
Accrued interest receivable	3,204	-	3,204
Inventories			
Road materials	603,799	-	603,799
Equipment material and parts	177,528	-	177,528
Prepaid expense	5,035	-	5,035
Deferred expense - Federal and State aid	2,091	-	2,091
Capital assets:			
Assets not being depreciated	-	4,502,480	4,502,480
Assets being depreciated	-	24,103,475	24,103,475
<b>Total assets</b>	<b><u>\$ 2,202,238</u></b>	<b><u>\$ 28,605,955</u></b>	<b><u>\$ 30,808,193</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 248,120	\$ -	\$ 248,120
Notes payable (short term)	25,392	-	25,392
Accrued liabilities	51,456	-	51,456
Escrow deposits	14,237	-	14,237
Advances	195,014	-	195,014
Long-term liabilities:			
Due within one year	-	30,000	30,000
Due after one year	-	337,403	337,403
<b>Total liabilities</b>	<b><u>534,219</u></b>	<b><u>367,403</u></b>	<b><u>901,622</u></b>
<b>FUND BALANCES/NET ASSETS</b>			
<b>Fund balances:</b>			
Reserved for inventories	781,327	(781,327)	-
Unreserved			-
Undesignated	886,692	(886,692)	-
<b>Total fund balances</b>	<b><u>1,668,019</u></b>	<b><u>(1,668,019)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 2,202,238</u></b>		
<b>Net Assets:</b>			
Invested in capital assets		28,605,955	28,605,955
Unrestricted		1,300,616	1,300,616
<b>Total net assets</b>		<b><u>\$ 29,906,571</u></b>	<b><u>\$ 29,906,571</u></b>

The accompanying notes are an integral part of these financial statements.

# HILLSDALE COUNTY ROAD COMMISSION

## Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund	\$ 1,668,019
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	28,605,955
Certain liabilities, such as compensated absences and loans payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	<u>(367,403)</u>
Net assets of governmental activities	<u>\$ 29,906,571</u>

The accompanying notes are an integral part of these financial statements.

# HILLSDALE COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>Page 11 Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Current:			
Public works	\$ 7,613,310	\$ (185,403)	\$ 7,427,907
<b>PROGRAM REVENUES</b>			
Charges for services	1,801,051	-	1,801,051
Operating grants and contributions:			
State	5,268,335	-	5,268,335
Federal	459,483	-	459,483
<b>TOTAL PROGRAM REVENUES</b>	<u>7,528,869</u>	<u>-</u>	<u>7,528,869</u>
<b>NET PROGRAM REVENUE</b>			100,962
<b>GENERAL REVENUES</b>			
Interest earned	<u>47,755</u>	<u>-</u>	<u>47,755</u>
<b>NET CHANGE IN FUND BALANCE</b>	(36,686)	36,686	
<b>CHANGES IN NET ASSETS</b>		148,717	148,717
<b>FUND BALANCE/NET ASSETS,</b>			
Beginning of year	<u>1,704,705</u>	<u>28,053,149</u>	<u>29,757,854</u>
<b>FUND BALANCE/NET ASSETS, End of year</b>	<u><u>\$ 1,668,019</u></u>	<u><u>\$ 28,238,552</u></u>	<u><u>\$ 29,906,571</u></u>

The accompanying notes are an integral part of these financial statements.

## HILLSDALE COUNTY ROAD COMMISSION

### Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - General Fund	\$ (36,686)
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Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	581,868
Add - infrastructure additions	2,081,330
Deduct - depreciation expense	(2,324,668)

Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(134,669)
Increase in compensated absences	<u>(18,458)</u>

Change in net assets of governmental activities	<u><u>\$ 148,717</u></u>
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The accompanying notes are an integral part of these financial statements.



**HILLSDALE COUNTY ROAD COMMISSION**  
(A Component Unit of Hillsdale County)

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**GENERAL FUND**

**YEAR ENDED DECEMBER 31, 2007**

**(With Comparative Actual Amounts for the Year Ended December 31, 2006)**

	2007				2006 Actual
	Original Budget	Amended Budget	Actual	Over (Under) Amended Budget	
<b>Revenues</b>					
Michigan Transportation Fund	\$ 4,400,000	\$ 4,400,000	\$ 4,430,464	\$ 30,464	\$ 4,446,006
State critical bridge fund	159,000	589,000	589,624	624	-
Economic development funds	304,000	248,000	248,247	247	674,875
Federal aid grants	848,000	459,000	459,483	483	115,147
Charges for services - state maintenance	688,000	750,000	774,520	24,520	547,223
Townships and other local units	727,600	738,300	739,559	1,259	765,630
Licenses and permits	21,000	30,000	34,829	4,829	40,057
Interest on investments	25,000	40,000	47,755	7,755	41,991
Equipment disposals gain	5,000	130,000	136,790	6,790	214,837
Miscellaneous	48,000	100,000	115,353	15,353	64,556
<b>Total revenues</b>	<b>7,225,600</b>	<b>7,484,300</b>	<b>7,576,624</b>	<b>92,324</b>	<b>6,910,322</b>
<b>Expenditures</b>					
Primary road heavy maintenance	427,900	390,000	374,476	(15,524)	905,051
Primary road maintenance	1,815,000	1,750,000	1,729,783	(20,217)	1,425,051
Primary structures heavy maintenance	611,800	610,000	586,506	(23,494)	13,896
Primary structures maintenance	30,000	46,000	41,382	(4,618)	5,383
Local road heavy maintenance	565,000	540,000	488,772	(51,228)	707,414
Local road maintenance	2,365,000	2,850,000	2,829,882	(20,118)	2,255,572
Local structure heavy maintenance	539,300	655,000	631,576	(23,424)	312
Local structure maintenance	10,000	30,000	6,374	(23,626)	9,707
State trunkline maintenance	718,000	760,000	780,110	20,110	547,664
Equipment expenditures - net	45,000	(80,000)	(214,275)	(134,275)	47,407
Administrative expenditures - net	495,000	495,000	442,361	(52,639)	479,692
Capital outlay - net	(428,000)	(164,000)	(159,949)	4,051	(141,319)
Debt service	-	-	-	-	59,589
Other operating expenditures	40,000	90,000	76,312	(13,688)	45,084
<b>Total expenditures</b>	<b>7,234,000</b>	<b>7,972,000</b>	<b>7,613,310</b>	<b>(358,690)</b>	<b>6,360,503</b>
<b>Net change in fund balance</b>	<b>(8,400)</b>	<b>(487,700)</b>	<b>(36,686)</b>	<b>451,014</b>	<b>549,819</b>
Fund balance, beginning of year	1,704,705	1,704,705	1,704,705	-	1,154,886
<b>Fund balance, end of year</b>	<b>\$ 1,696,305</b>	<b>\$ 1,217,005</b>	<b>\$ 1,668,019</b>	<b>\$ 451,014</b>	<b>\$ 1,704,705</b>

The accompanying notes are an integral part of these financial statements.

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hillsdale County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Hillsdale County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Hillsdale, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners elected by Hillsdale County voters.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having financial accountability. Based on the above criteria, these financial statements present the Hillsdale County Road Commission, a discretely presented component unit of Hillsdale County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

#### **Basis of Presentation**

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### **Budgetary Data**

The governmental fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or amended by the Board of County Road Commissioners. The budget for the general operating fund is adopted on a functional level basis. Budget variances at the functional level, if any, are disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Inventory**

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### **Fund Balance Reservations and Designations**

Portions of fund equity are segregated for future use, and are, therefore, not available for future appropriation. Amounts are reserved for inventories for monies already spent to show the amount of fund balance not currently available for expenditures. Designations of unreserved fund balances in governmental funds indicate the Road Commission's intention to use this portion of fund balance in the subsequent year.

### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. In 2004, the Road Commission began capitalizing and depreciating infrastructure assets as indicated on the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial cost of \$200 or more and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<b><u>Asset Category</u></b>	<b><u>Useful Life in Years</u></b>
Buildings and improvements	40
Equipment	4 to 8
Infrastructure	8 to 50

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

### Long-term Obligations

As applicable, in the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

### Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

Sick leave is accumulated, for employees with one year or more of service, at the rate of one day for each month of service, not to exceed a total accumulation of 60 days. Accumulated sick pay is payable at 100% to employees upon death or retirement and 50% for employees who quit or are discharged.

Accumulated vacation pay is payable 100% to employees in case of retirement, resignation, discharge or death.

## 2. CASH AND CASH EQUIVALENTS

### Deposits

At December 31, 2007, the amount of the Road Commission's deposits were as follows:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Petty cash	\$ 100	\$ -
Held by Hillsdale County		
Checking	2,856	31,389
Liquid savings accounts	264,181	266,035
Certificates of deposit	300,000	300,000
	<b><u>\$ 567,137</u></b>	<b><u>\$ 597,424</u></b>

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2007.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2007.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2007, deposits in the amount of \$597,424 held by Hillsdale County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2007.

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$ 68,434	\$ -	\$ -	\$ 68,434
Land improvements - infrastructure	4,241,290	192,756	-	4,434,046
<b>Subtotal</b>	<b>4,309,724</b>	<b>192,756</b>	<b>-</b>	<b>4,502,480</b>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	2,028,579	-	1,120	\$ 2,027,459
Road equipment	5,533,471	563,201	450,425	5,646,247
Shop equipment	100,613	16,267	1,667	115,213
Office equipment	147,293	-	-	147,293
Engineers' equipment	59,947	2,400	-	62,347
Yard and storage	436,535	-	-	436,535
Depleteable assets	65,400	-	-	65,400
Infrastructure	42,608,893	1,888,574	-	44,497,467
<b>Subtotal</b>	<b>50,980,731</b>	<b>2,470,442</b>	<b>453,212</b>	<b>52,997,961</b>
<b>Accumulated depreciation and depletion</b>				
Buildings and improvements	527,348	61,325	1,120	587,553
Equipment	4,558,244	540,886	317,423	4,781,707
Depleteable assets	62,156	639	-	62,795
Infrastructure	21,740,613	1,721,818	-	23,462,431
<b>Total accumulated depreciation and depletion</b>	<b>26,888,361</b>	<b>2,324,668</b>	<b>318,543</b>	<b>28,894,486</b>
<b>Total capital assets being depreciated - net</b>	<b>24,092,370</b>	<b>145,774</b>	<b>134,669</b>	<b>24,103,475</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 28,402,094</b>	<b>\$ 338,530</b>	<b>\$ 134,669</b>	<b>\$ 28,605,955</b>

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<b>Balance January 1, 2007</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2007</b>	<b>Due Within One Year</b>
Compensated absences	<u>\$ 348,945</u>	<u>\$ 18,458</u>	<u>\$ -</u>	<u>\$ 367,403</u>	<u>\$ 30,000</u>

Also, during the year, advances from the State Department of Transportation for the State Trunkline Maintenance contract were decreased by \$5,705. Total advances from the State Department of Transportation are \$192,691 as of December 31, 2007.

### 5. RETIREMENT PLAN

#### *Plan Description*

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

#### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.40% for Association members and 11.55% for non-Association members. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are required to contribute 5.3% of annual compensation, and non-Association 9.9%.



# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$155,495 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.50% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial report, was 30 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$ 146,018	100%	\$ -
12/31/06	151,739	100	-
12/31/07	155,495	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$ 3,660,821	\$ 6,055,828	\$2,395,007	60%	\$ 1,890,184	126%
12/31/05	4,028,654	6,292,619	2,263,965	64	1,893,260	120
12/31/06	4,507,820	6,590,191	2,082,371	68	1,767,724	118

# HILLSDALE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 6. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool, (the "Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life, health, and workers' compensation insurances. Settled claims have not exceeded insurance coverage for the last three years.

### 7. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

\* \* \* \* \*

## **OPERATING FUND SCHEDULES**

**HILLSDALE COUNTY ROAD COMMISSION**  
**(A Component Unit of Hillsdale County)**

**SCHEDULE OF CHANGES IN FUND BALANCES**

**YEAR ENDED DECEMBER 31, 2007**

	<b>Primary Road Fund</b>	<b>Local Road Fund</b>	<b>County Road Commission</b>	<b>Totals</b>
Total revenue	\$ 3,455,119	\$ 3,036,088	\$ 1,085,417	\$ 7,576,624
Total expenditures	2,862,998	4,087,930	662,382	7,613,310
Revenue over (under) expenditures	592,121	(1,051,842)	423,035	(36,686)
Optional transfers and adjustments	(803,644)	1,051,842	(248,198)	-
Revenue over (under) transfers and adjustments	(211,523)	-	174,837	(36,686)
Fund balance, beginning of year	862,278	-	842,427	1,704,705
<b>Fund balance, end of year</b>	<b>\$ 650,755</b>	<b>\$ -</b>	<b>\$ 1,017,264</b>	<b>\$ 1,668,019</b>

**HILLSDALE COUNTY ROAD COMMISSION****(A Component Unit of Hillsdale County)****SCHEDULE OF REVENUES****YEAR ENDED DECEMBER 31, 2007**

	<b>Primary Road Fund</b>	<b>Local Road Fund</b>	<b>County Road Commission</b>	<b>Totals</b>
<b>State Aid:</b>				
Michigan Transportation Fund				
Engineering	\$ 6,000	\$ 4,000	\$ -	\$ 10,000
Allocation	2,596,774	1,718,852	-	4,315,626
Urban roads	74,623	27,889	-	102,512
Snow removal	1,419	907	-	2,326
State critical bridge	503,471	86,153	-	589,624
Economic Development Fund				
Urban area	248,247	-	-	248,247
	<u>3,430,534</u>	<u>1,837,801</u>	<u>-</u>	<u>5,268,335</u>
<b>Federal Aid:</b>				
Critical bridge	-	459,483	-	459,483
<b>Charges for Services</b>				
State trunkline maintenance	-	-	748,373	748,373
State trunkline nonmaintenance	-	-	26,147	26,147
	<u>-</u>	<u>-</u>	<u>774,520</u>	<u>774,520</u>
<b>Contributions:</b>				
Township, City, Private	755	738,804	-	739,559
<b>Other Revenue:</b>				
Salvage sales	-	-	10,159	10,159
Interest earned	23,830	-	23,925	47,755
Permit and inspection fees	-	-	34,829	34,829
Gain on equipment disposal	-	-	136,790	136,790
Other miscellaneous	-	-	105,194	105,194
	<u>23,830</u>	<u>-</u>	<u>310,897</u>	<u>334,727</u>
<b>Total Revenue</b>	<u><b>\$ 3,455,119</b></u>	<u><b>\$ 3,036,088</b></u>	<u><b>\$ 1,085,417</b></u>	<u><b>\$ 7,576,624</b></u>

**HILLSDALE COUNTY ROAD COMMISSION**  
(A Component Unit of Hillsdale County)

**SCHEDULE OF EXPENDITURES**

**YEAR ENDED DECEMBER 31, 2007**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Totals</u>
<b>Primary Road</b>				
Heavy Maintenance	\$ 374,476	\$ -	\$ -	\$ 374,476
Maintenance	1,729,783	-	-	1,729,783
<b>Local Road</b>				
Heavy Maintenance	-	488,772	-	488,772
Maintenance	-	2,829,882	-	2,829,882
<b>Primary Road Structure</b>				
Heavy Maintenance	586,506	-	-	586,506
Maintenance	41,382	-	-	41,382
<b>Local Road Structure</b>				
Heavy Maintenance	-	631,576	-	631,576
Maintenance	-	6,374	-	6,374
<b>State Trunkline Maintenance and Non-maintenance</b>	-	-	780,110	780,110
<b>Equipment Expense - Net</b>	(49,840)	(130,344)	(34,091)	(214,275)
<b>Administrative Expense - Net</b>	180,691	261,670	-	442,361
<b>Capital Outlay - Net</b>	-	-	(159,949)	(159,949)
<b>Other Expenditures</b>	<u>-</u>	<u>-</u>	<u>76,312</u>	<u>76,312</u>
<b>Total Expenditures</b>	<u><u>\$ 2,862,998</u></u>	<u><u>\$ 4,087,930</u></u>	<u><u>\$ 662,382</u></u>	<u><u>\$ 7,613,310</u></u>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 23, 2008

Members of the Board of County  
Road Commissioners  
County of Hillsdale, Michigan  
Hillsdale, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **HILLSDALE COUNTY ROAD COMMISSION** as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated June 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hillsdale County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Hillsdale County Road Commission in a separate letter dated June 23, 2008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hillsdale County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.





# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP



June 23, 2008

To the Hillsdale County Board of  
Road Commissioners

We have audited the financial statements of the governmental activities and major fund of the *Hillsdale County Road Commission* (the “Road Commission”) for the year ended December 31, 2007, and have issued our report thereon dated June 23, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated November 29, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Road Commission’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 6, 2008.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No adjusting entries were proposed.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated June 23, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Road Commission’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Hillsdale County Road Commission* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# **Hillsdale County Road Commission**

## **Comments and Recommendations**

**For the Year Ended December 31, 2007**

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In planning and performing our audit of the financial statements of the Hillsdale County Road and Parks (the "Road Commission") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matter**

Limiting access to key financial data through strong password and access policies is a key IT control. Hillsdale County Road Commission does not have a strong set of password controls that limit access to company financial information.

## **Hillsdale County Road Commission**

### **Comments and Recommendations (Concluded)**

**For the Year Ended December 31, 2007**

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We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Road Commission institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of Hillsdale County Road Commission, once every six months would be adequate. The Road Commission may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

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